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Macroeconomic policy questions: trade and development

Transit environment in the landlocked States in Central Asia and their transit neighbours

Note by the Secretary-General

The Secretary-General has the honour to submit to the General Assembly, as requested in its resolution 51/168 of 16 December 1996, the report prepared by the United Nations Conference on Trade and Development on the transit environment in the landlocked States of Central Asia and their transit neighbours (see annex).

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Annex

Report prepared by the United Nations Conference on Trade and Development on the transit environment in the landlocked States of Central Asia and their transit neighbours

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I. Introduction

1. In its resolution 51/168 of 16 December 1996, the General Assembly took note of the progress report by the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) on measures designed to improve the transit transport environment in Central Asia. (A/51/288). It also took note of the results of the Technical Meeting on Central Asia's Transit Transport Links with World Markets (see UNCTAD/LLDC/Misc.4) held at Ankara from 7 to 9 November 1995 under the auspices of the United Nations Development Programme (UNDP) and UNCTAD.

2. The Technical Meeting considered appropriate next steps towards a transit transport framework agreement in Central Asia. It also urged participating countries to accede to transport and transit conventions and to conclude bilateral agreements designed to strengthen transit transport facilitation. It further called for an effective regional institutional mechanism that would promote a harmonized approach to transit transport issues and urged international organizations to support regional transit transport cooperation.

3. In its resolution 51/168, the General Assembly also invited the Secretary-General of UNCTAD and the Governments concerned, in cooperation with UNDP, the Economic and Social Commission for Asia and the Pacific (ESCAP), the Economic Commission for Europe (ECE) and relevant regional and international organizations and in accordance with approved programme priorities and within existing financial resources, to continue elaborating a programme for improving the efficiency of the current transit environment in the newly independent and developing landlocked States in Central Asia and their transit developing neighbours, and requested the Secretary-General of UNCTAD to prepare a report on the progress made in this regard to the Assembly at its fifty-third session. The present report has been prepared in response to that request.

4. In his earlier, 1996 report, the Secretary-General described the many difficulties facing the landlocked countries of Central Asia. In particular, he observed that the impact of economic change in Central Asia had caused (a) severe economic contraction; (b) loss of markets for both raw materials and industrial products from the region; (c) a precipitous fall in real gross domestic product (GDP) which fell 30 to 50 per cent; (d) bank retrenchment, with numerous failures and a fall in savings and investment; (e) spectacular dislocation of the transport system; and (f) a dramatic rise in unemployment.

II. Economic recovery and the emerging trade and transit patterns in Central Asia

A. Economic recovery

5. Since then, the economic outlook in Central Asia has ameliorated. The countries concerned are still recovering from the dislocation of their central planning economies and grappling with the problems of transition to market-based economies but economic recovery, which in some countries began in 1994, has in general been sustained. Monetary stabilization programmes and currency controls introduced since 1992 have managed to reduce inflation, GDP is on the rise and gradual recovery in production and trade is taking place (see table 1).

Table 1
Real GDP and consumer prices
(Annual average percentage change over the previous year)

	GDP		Consumer prices	
Country	*1993*	*1997*	*1993*	*1997*
Kazakhstan	-9.2	2.0	1 660	20
Kyrgyzstan	-15.5	10.4	1 210	30
Tajikistan	-16.3	1.7	2 140	70
Turkmenistan	1.5	0.1[a]	1 630	[b]
Uzbekistan	-2.3	5.2	1 230	320[c]

Source: UNCTAD calculations based on data from Inter-State Statistics Committee of CIS.

[a] 1996.

[b] Data unavailable.

[c] 1995.

6. Even so, the pace of recovery has not been shared equally among countries or, for that matter, between economic sectors within individual countries. According to official Commonwealth of Independent States (CIS) figures, in the three Central Asian countries where GDP fell by one half or more between 1990 and 1994 (Kazakhstan, Kyrgyzstan and Tajikistan), economic recovery has strengthened markedly in the last two years. The pace of economic recovery in Kazakhstan in 1997 was reflected in the attainment of a 2 per cent growth of GDP, double its performance in 1996. Economic performance in Kyrgyzstan was even more robust, posting a GDP growth of about 10 per cent in 1997. Tajikistan's economy, devastated by a five-year civil war, has also bottomed out, thanks to a strong contribution from the agricultural sector which resumed production following the peace agreement in June 1997. Turkmenistan and Uzbekistan, which witnessed more moderate declines between 1990 and 1994 have continued to make reasonable gains.

7. Although the Central Asian countries have managed to reverse their economic decline, long-term growth and sustainable development in those countries will depend on their ability to develop new industries to replace those created and sustained by the unique characteristics and artificial engineering of central planning. In the short run, they must find new markets for traditional products and new sources of raw materials and supplies to replace those disrupted by the break-up of the former Union of Soviet Socialist Republics.

8. Given the severe budgetary and balance-of-payments difficulties facing the Central Asian countries, foreign direct investment (FDI) is expected to play a major role in their development effort. Measures being taken to establish an appropriate regulatory framework for market-based economies, including trade liberalization and privatization, have stimulated FDI and increased bilateral and multilateral aid flows. The energy sector (oil and gas) and mining have claimed the lion's share of FDI and the bulk of this investment has gone to Kazakhstan (see table 2).

Table 2
Net foreign direct investment in 1992–1996

Country	*Cumulative (millions of dollars)*	*Per head (dollars)*
Kazakhstan	2 536 0	29 8
Kyrgyzstan[a]	191 1	10 2
Tajikistan[b]	41 0	2 2
Turkmenistan[b]	308 1	25 1
Uzbekistan	310 0	2 8

Sources: UNCTAD, foreign direct investment/transnational corporations (FDI/TNC) database, and IMF tape retrieved in June 1998.

[a] 1993–1996.

[b] 1994–1996.

B. The emerging trade pattern

9. The emerging trade pattern in Central Asia has been characterized by change in the direction of trade and the product mix. There has been a shift from trade in heavy industrial products, once the mainstay of Kazakhstan and some of the other Central Asian countries, to exports dominated by agriculture, metals and light industries as well as change in the direction of trade, with new markets outside the CIS area becoming important destinations for Central Asian foreign trade, especially exports (see table 3).

Table 3
Value of exports and imports
(Millions of dollars)

		Exports			*Imports*		
Country	*Kind*	*1992*	*1996*	*1997*	*1992*	*1996*	*1997*
Kazakhstan	Total	[a]	6 230	6 366	[a]	4 261	4 275
	Extra	1 398	2 758	3 515	469	1 297	1 969
	Intra	[a]	3 472	2 851	[a]	2 964	2 306
Kyrgyzstan	Total	[a]	506	580	[a]	838	680
	Extra	77	112	270	71	351	260
	Intra	[a]	394	310	[a]	487	420
Tajikistan	Total	[a]	770	780	[a]	668	805
	Extra	111	439	470	132	286	300
	Intra	[a]	331	310	[a]	382	505
Turkmenistan	Total	[a]	1 693	750	[a]	1 313	1 130
	Extra	908	551	270	543	924	520
	Intra	[a]	1 142	480	[a]	389	610

		Exports			Imports		
Country	*Kind*	*1992*	*1996*	*1997*	*1992*	*1996*	*1997*
Uzbekistan	Total	[a]	4 211	[a]	[a]	4 712	[a]
	Extra	869	3 321	[a]	929	3 195	[a]
	Intra	[a]	890	[a]	[a]	1 517	[a]

Source: Inter-State Statistical Committee of CIS.

Note: Extra: trade with countries outside CIS; intra: trade with the member countries of CIS.

[a] Data unavailable.

10. Exports to foreign countries outside the CIS area were mainly cotton fibres and metals (aluminium, refined copper, zinc) while imports included both capital and consumer items. In 1996, the combined share of total exports of the export trade to the outside world from Kyrgyzstan, Tajikistan and Uzbekistan was about 60 per cent. In contrast, total imports from non-CIS countries grew relatively more moderately, with Turkey, China, Germany and other European Union (EU) countries emerging as important trading partners.

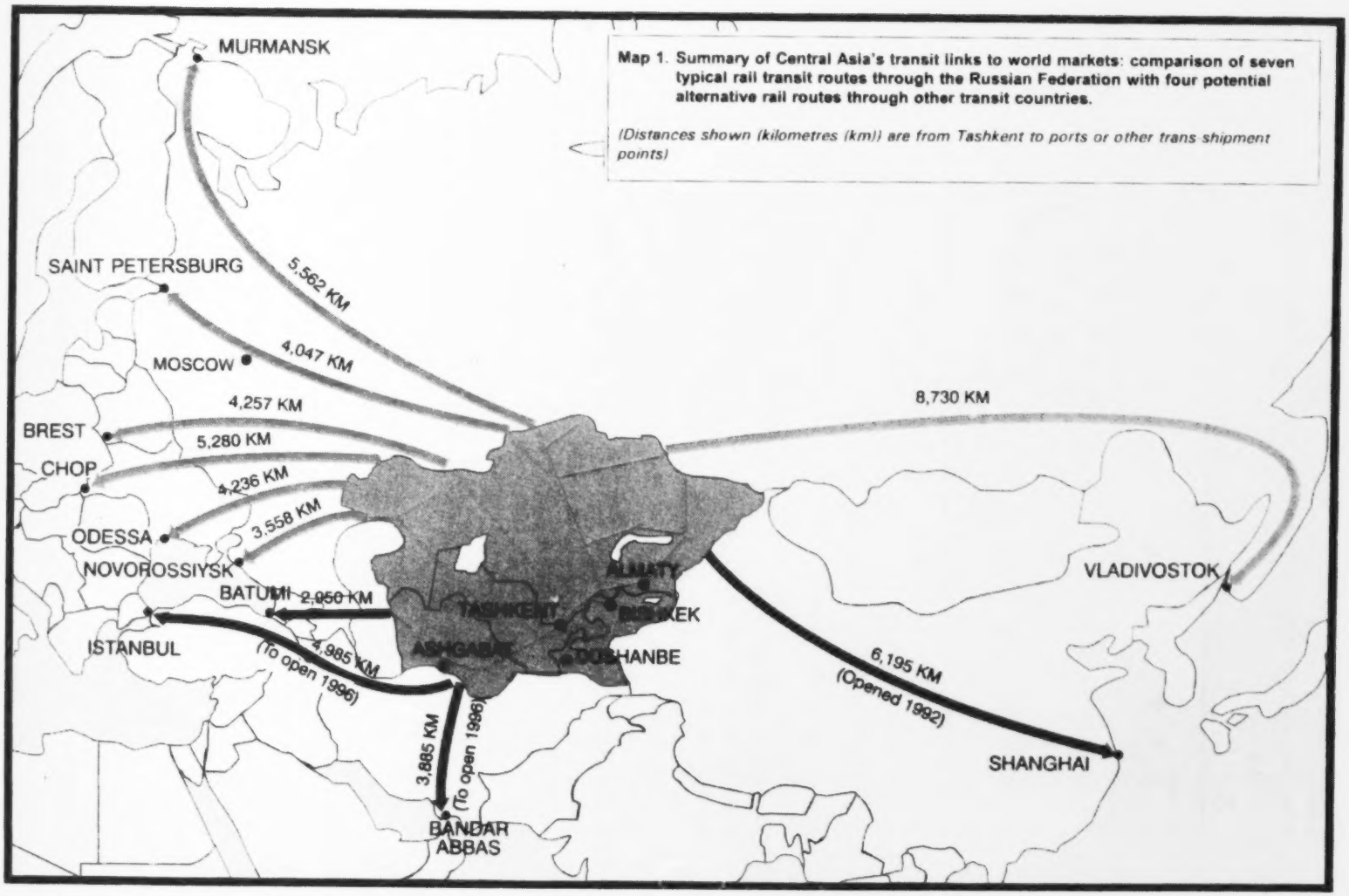
C. Alternative transit transport routes and pipelines

11. The growing number of alternative transit routes in Central Asia has played a key role in changing the direction of trade. The impact of those routes on opening up Central Asia for trade, in spite of their present physical and non-physical constraints, has been substantial. Improving their efficiency to minimize the cost of transport will enable them to make an even greater contribution to trade expansion.

12. Central Asia's resolve to open up to trade and investment has been matched by international support, in terms of credit finance for maintenance and development of transport infrastructure and technical assistance to increase the efficiency of its transit transport systems. This new partnership has been built on confidence in Central Asia's ability to offer attractive trade and investment opportunities for investors.

13. With a territory as large as India and Pakistan combined and rich natural resources, Central Asia has enormous trade potential. Furthermore, sitting astride the centre of the Eurasian land mass, it provides a land bridge between Asia and Europe. As a landlocked region, Central Asia needs access to and from the sea passing through the territories of transit countries but its geographical position could also enable it to become an important gateway to Asia from Europe and the Middle East (see map 1).

14. Today, however, trade to or through Central Asia is hampered by prohibitive transport costs. In many cases, these represent up to 60 per cent of the value of manufactured imports. Central Asia and its trading partners therefore have a strong incentive to improve the efficiency of the main transit transport routes which not only link Central Asia with the world but also facilitate transport between Asia and Europe.



Map 1. Summary of Central Asia's transit links to world markets: comparison of seven typical rail transit routes through the Russian Federation with four potential alternative rail routes through other transit countries.

(Distances shown (kilometres (km)) are from Tashkent to ports or other trans-shipment points)

Table 4
Basic data: distance, area, population and gross national product (GNP) per capita

Country	*Distance [a] (Kilometres (km))*	*Area (thousands of sq km)*	*Population [b] (millions)*	*GNP per capita [c] (US$)*
Kazakhstan	3 750	2 717	7.2	1 680
Kyrgyzstan	3 600	199	4.6	820
Tajikistan	3 100	143	5.9	490
Turkmenistan	1 700	488	4.4	1 230
Uzbekistan	2 950	450	22.7	850
Total		**3 997**	**54.8**	

Source: UNCTAD secretariat.

[a] Estimated shortest distance by surface route from each country's capital, through one or more transit countries, to the nearest port for ocean-going vessels.

[b] 1994 estimates.

[c] World Bank estimates for 1992.

1. New pipeline project proposals

15. Central Asia has enormous oil and gas reserves. The Caspian fields alone have been reported as holding potential reserves approaching 200 billion barrels – an amount almost as large as Saudi Arabia's total potential reserves. Kazakhstan has the world's sixth largest reserves of oil and natural gas. However, as the only outlet of oil and gas from Central Asia to the world is through the Russian pipeline network, Central Asia is actively searching for alternative pipeline routes in order to increase its exports potential to the world market (see box 1).

16. Pending the construction of alternative pipelines, oil is being moved by rail. Tengiz oil from Kazakhstan, for example, is moved by tanker across the Caspian Sea and then by rail to the port of Bat'umi in Georgia for onward transport to world markets. In 1997, 3 million tons were moved by rail. Exports are expected to rise to between 4 million and 5 million tons in 1998. Turkmenistan crude has also been shipped across the Caspian. However, since transporting oil by rail is neither cost-effective nor safe, serious commercial exploitation of Central Asia's oil and gas reserves will only begin with the construction of new pipelines.

Box 1. The prospective Caspian oil boom and the competition for transit pipeline routes

A number of pipeline projects are in the offing. A consortium called Central Asia Pipeline (Cent Gas), which is led by the United States oil and gas company Unicol, signed a contract with Turkmenistan in 1995 to build oil and gas pipelines from Turkmenistan to Pakistan through Afghanistan. However, this project has given rise to legal disputes among some of the oil firms. Moreover, the security of the pipeline in Afghanistan is in question as long as civil strife continues.

The start of construction work on the Caspian Pipeline Consortium (CPC) pipeline from the Tengiz field to the Russian port of Novorossiysk has been delayed. Construction is not likely to start in March 1998 as was expected. Work on the pipeline, which was originally to have been started by the end of 1996, will probably not start until 1999, according to oil industry sources. The key issue seems to be the failure of CPC's management to secure transit rights from the Russian Federation and regional authorities that are crucial for the pipeline project.

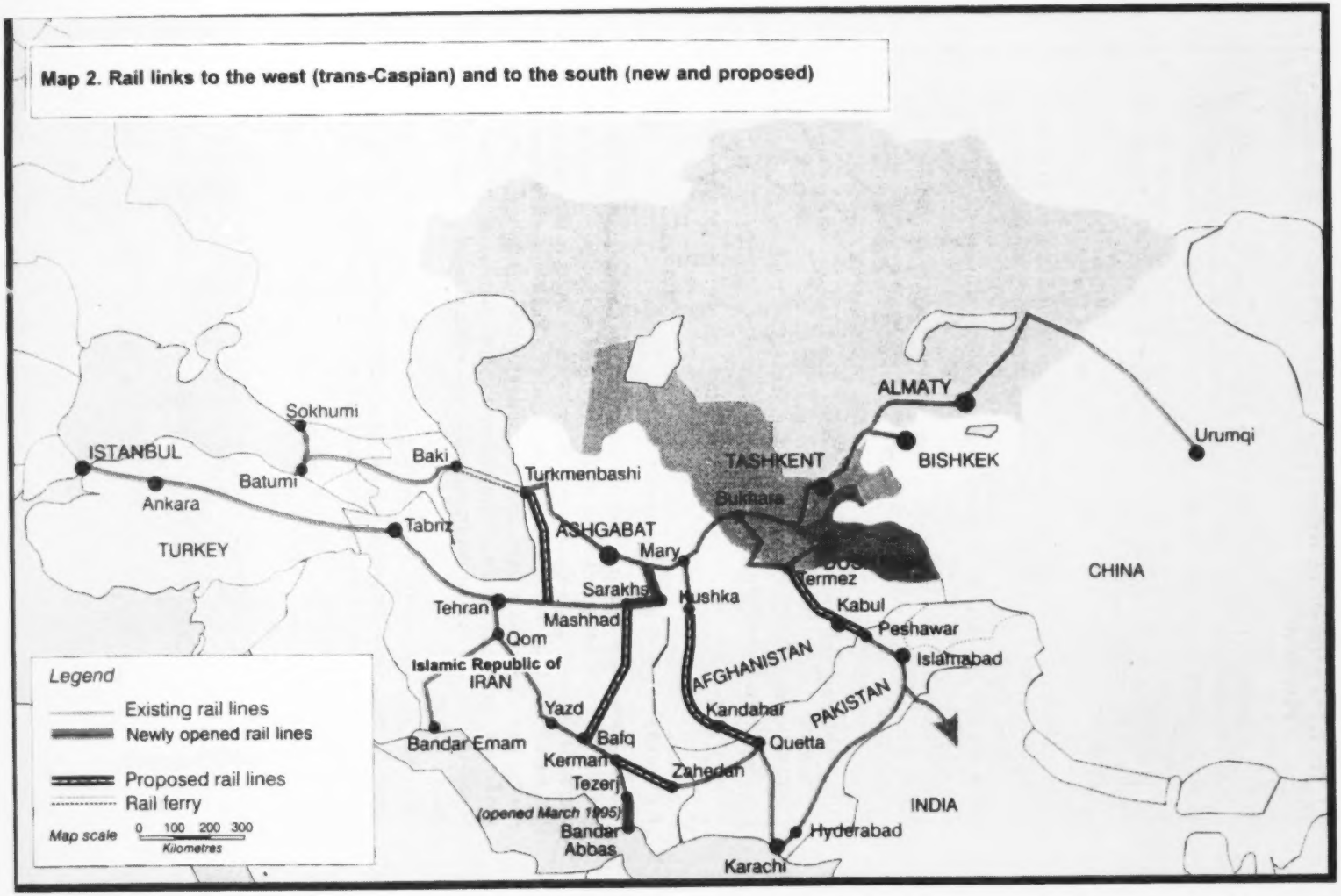
Other pipeline schemes include a pipeline from Kazakhstan to Azerbaijan across the Caspian Sea, the so-called Baku-Ceyhan route; a pipeline from Kazakhstan and Turkmenistan to the Islamic Republic of Iran; and extension of a gas pipeline from Almaty to Ürümqi.

2. Rail, road and inland water transport

17. As a result of various initiatives in recent years, the Central Asian countries have a growing number of alternative transit routes. The construction of two railway extensions, the first linking the Central Asian network to the Chinese network in 1992 and the second linking Central Asia with the Islamic Republic of Iran in 1996, made transcontinental railway services possible from the Pacific ports of China on the East to the Indian Ocean and Europe. Two-bogey change or trans-shipment, at both ends – at the Chinese border at Druzhba and the Turkmenistan border at Sarakhs – is needed because of differences in rail gauge (see map 2).

18. The construction of the Bafgh-Mashad railway in the Islamic Republic of Iran will reduce the distance from Turkmenistan to the seaport of Bandar-e Abbās by 1,600 km. The construction of a railway from Kermān to Zāhedān in the Islamic Republic of Iran will link Central Asia with Pakistan.

Map 2. Rail links to the west (trans-Caspian) and to the south (new and proposed)



19. However, in spite of the cost advantage for low-value bulk commodity transports over long distances, rail transport in Central Asia entered a period of decline beginning in 1991. The break-up of the former Soviet railway system and the creation of separate national railways affected the efficiency of railway services in the whole region.

20. In the wake of these problems, road transport competition has increased. However, the rise of international road services has brought new problems, notably accelerated road damage, traffic accidents, pollution and tax evasion.

(a) Rail and road links through the Russian Federation

21. The existence of three alternative railway lines passing through Kazakhstan towards Moscow, the Baltic region and Western Europe makes rail transport the most convenient means of transport in the east-west direction from Central Asia (see map 3).

22. However, a variety of factors, including high tariffs, inefficient railway operations and changing trade patterns and requirements, have enabled road transport to capture an increasing share of the freight market. The east-west routes through the Russian Federation carry transit trade from Kazakhstan, Kyrgyzstan and parts of Uzbekistan. The road network is fairly well developed. However, it was built to withstand much lower axle loads and gross vehicle weights than those of the heavy-duty vehicles that now ply the roads. As a result, the rise of international road services has been accompanied by rapid deterioration of the road network.

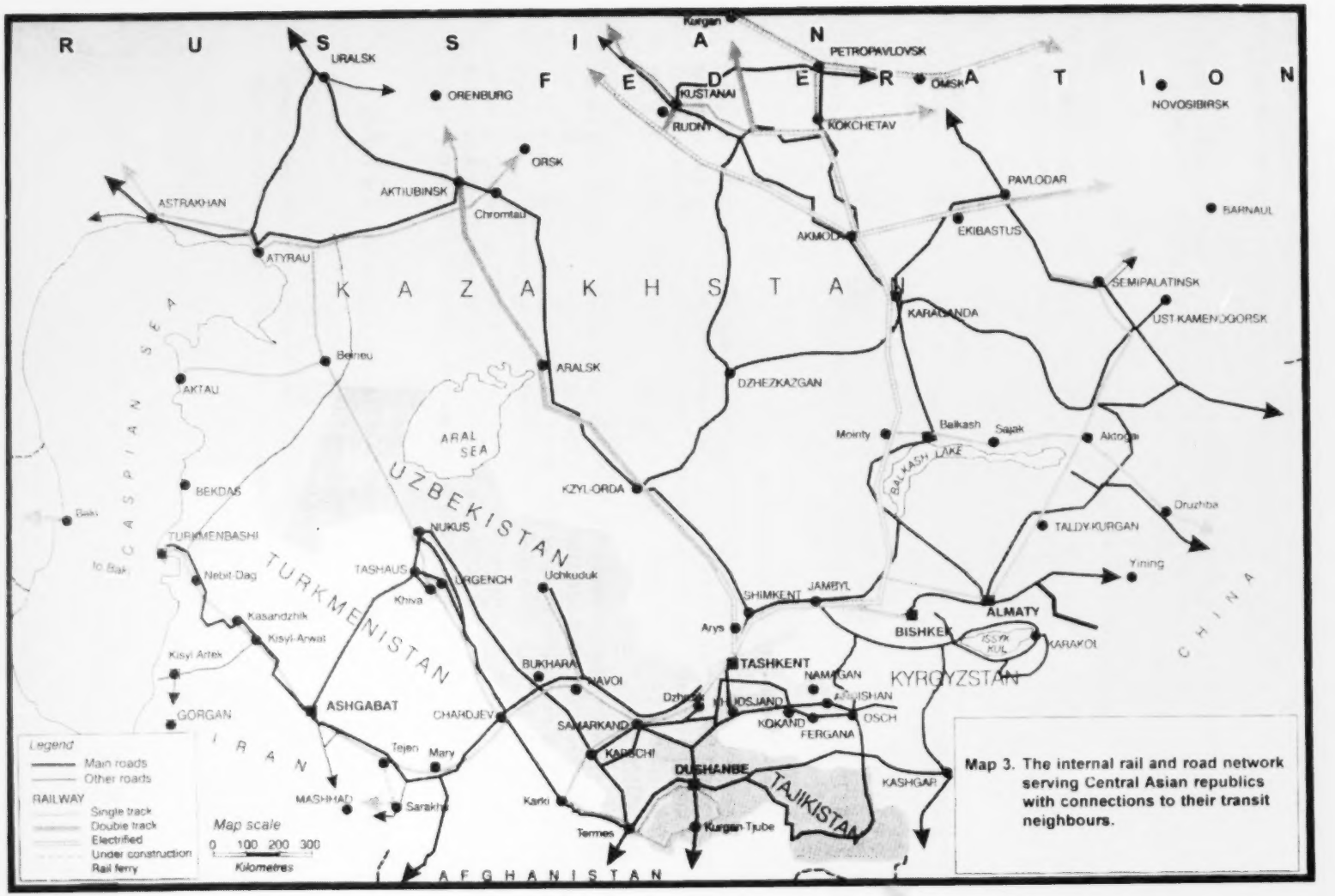
(b) Trans-Caspian route by rail and road

23. The trans-Caspian route by rail or road provides the shortest link to an ocean-going seaport from Central Asia (see map 2). The route passes through Turkmenistan to the Caspian Sea port of Türkmenbashi (formerly Krasnovodsk), then by rail ferry to the port of Baku in Azerbaijan, and finally by rail or road to the Black Sea ports of Bat'umi or P'ot'i in Georgia.

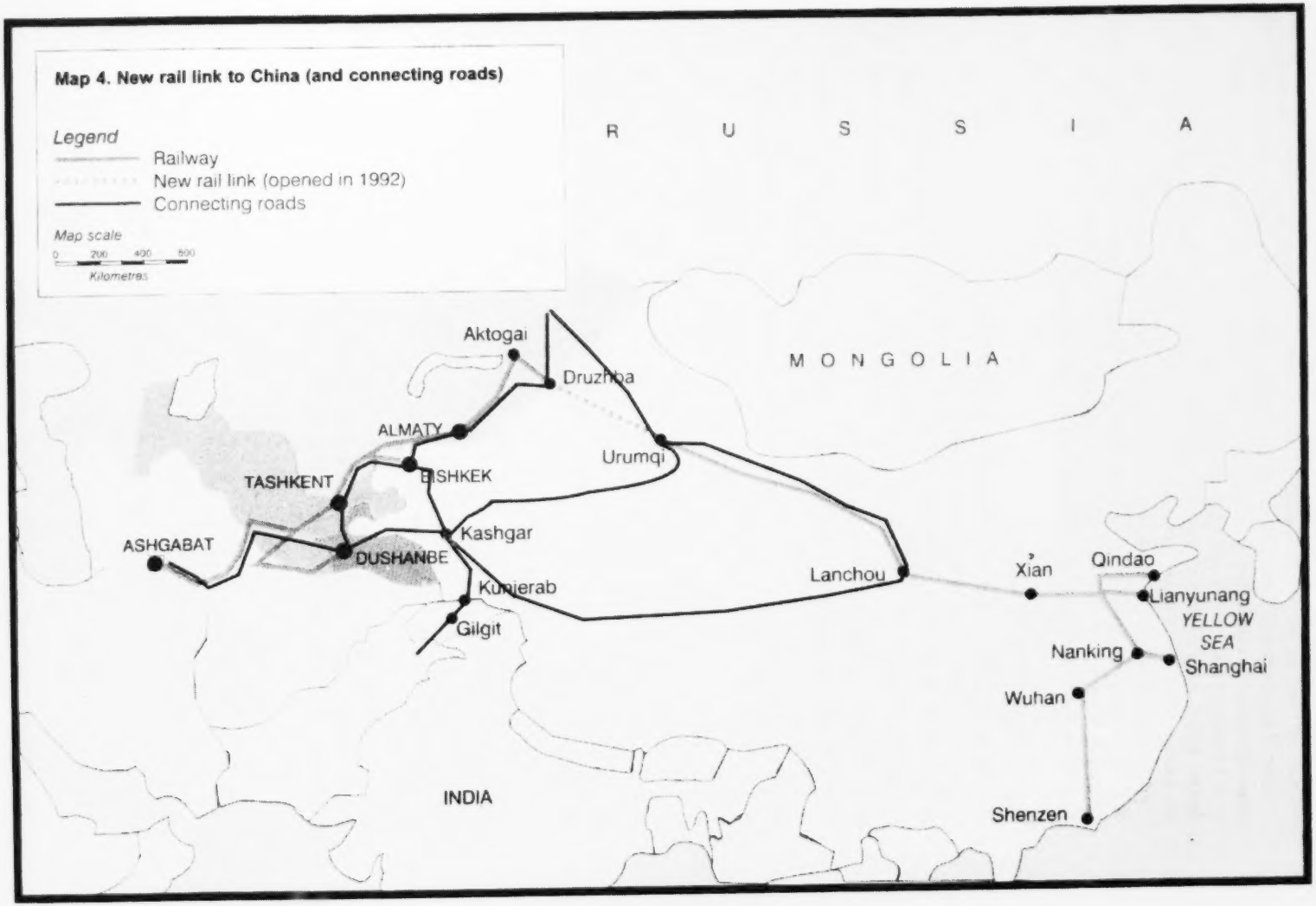
24. However, transport costs on this intermodal transport route are high and services are unreliable. Ferry services across the Caspian Sea are inefficient and are not scheduled. This results in long waiting times for rail wagons, and road vehicles; intermittent political hostilities in the Caucasus also discourage transporters from using this route. About 3 million tons per year of mainly crude oil were shipped through the ports of Baku and Bat'umi in 1997 compared with a flow of 5 million tons prior to 1991. Because of limitations on this route, a south-north route up the eastern side of the Caspian Sea has recently been developed (see map 3).

(c) Rail and road link to the Islamic Republic of Iran, the Persian Gulf and Turkey

25. The completion of the rail link between the Islamic Republic of Iran and Turkmenistan in May 1996 was called a historic event by the press, which heralded it as the rebirth of the century-old silk road that had once linked Europe and the Persian Gulf to China. With the completion of the rail link, an additional alternative route by train between Europe and Asia has also been provided (see map 4).



Map 3. The internal rail and road network serving Central Asian republics with connections to their transit neighbours.


Map 4. New rail link to China (and connecting roads)
Legend
Railway
New rail link (opened in 1992)
Connecting roads
Map scale
0 200 400 600
Kilometres
R U S S I A
MONGOLIA
Aktogai
Druzhba
ALMATY
Urumqi
TASHKENT
BISHKEK
Kashgar
ASHGABAT
DUSHANBE
Kunjerab
Lanchou
Xian
Qindao
Lianyunang
YELLOW SEA
Nanking
Shanghai
Wuhan
Gilgit
INDIA
Shenzen

26. However, because of rail gauge differences, international train services are subject to interruption at the borders between the Islamic Republic of Iran and Turkmenistan and between Kazakhstan and China. Trans-shipment or bogey change at the border stations takes four or more hours. Traffic from Central Asian countries proceeding to Turkey faces another physical bottleneck – the 96 km rail ferry crossing of Lake Van in eastern Turkey. Two ferries able to carry 16 railway wagons each make three round trips per day – with a total annual capacity of 500,000 to 600,000 tons. A 250 km railway bypass in mountainous terrain around the northern side of the lake, which could increase capacity to 4 million tons of goods per year, is under consideration. The delays associated with trans-shipment and ferry connections boost road transport competition which could offer an even stiffer challenge if transit transport procedures were simplified and harmonized.

(d) Rail and road link to China

27. Container traffic on the rail line linking Kazakhstan (Druzhba) to China (Ürümqi) has increased from a few dozen twenty-foot equivalent units (TEUs) in 1992, when the line was commissioned, to more than 3,000 TEUs in 1997. Trans-shipment or bogey change at the interchange station due to gauge differences causes considerable delays. Current plans under consideration include the enlargement of the Druzhba terminal and improvement of the rail tracks between Aktogay and Druzhba (see map 2).

28. The main east-west highway linking Tashkent (Uzbekistan) and Almaty (Kazakhstan) and proceeding onward to the Kazakhstan-Chinese border at Horgos and Ürümqi needs upgrading on many sections. Some sections in China have been upgraded but many others are still in poor condition.

(e) Other rail and road links

29. One important project under way include the rail link between the Islamic Republic of Iran and Pakistan. The gap between Zāhedān and Kermān within the Islamic Republic of Iran is being closed up. When work under way is completed, rail services will be available from Central Asia to Karachi, via the Islamic Republic of Iran, with an additional gauge change (see map 2).

30. The road link from Dushanbe in Tajikistan via Termez in Uzbekistan to Afghanistan via Kabul with a spur to Kandarha or Peshawar in Pakistan and onward to Karachi is one of the shortest routes from the Indian Ocean to the southern part of Central Asia. However, the current civil strife in Afghanistan inhibits normal transit transport operations.

31. The improving of the transport network between Central Asia and China led the three neighbouring countries of China, Kyrgyzstan and Uzbekistan to sign an agreement in April 1997 to upgrade the road linking Tashkent in Uzbekistan with Kashgar in China via the city of Osh in Kyrgyzstan. The road links up with the Karakorum highway which connects Central Asia with China to the east and Pakistan and India to the south.

III. Measures under way to improve the efficiency of transit transport in Central Asia

32. The Central Asian countries have, since attaining their independence in 1991, taken measures to join the community of nations by becoming Members of the United Nations and related agencies and affiliating themselves to a number of organizations in their region.

33. Membership in international and regional organizations and acceptance of basic international agreements and norms have provided the Central Asian countries with benefits in terms of expanded trade and investment opportunities. The General Assembly and organizations of the United Nations system, notably UNDP, ESCAP, ECE and UNCTAD, have offered technical assistance in a broad range of sectors and played an important role in mobilizing financial support from the international community. The Bretton Woods institutions, as well as regional banks, notably the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank, have extended credit dedicated to improving existing transport infrastructure and developing alternative transport routes. Individual donor countries, notably Japan, China and the United States of America, as well as groups of countries like EU, have also provided significant financial and technical assistance support (see box 2).

Box 2. Selected sample of major projects to improve the efficiency of transit transport

Japan	
• Construction of new airport at Akmola, Kazakhstan: loan from Japan	$180 million
• Construction of coach workshop in Tashkent, Uzbekistan, by Japan	¥6,102 billion (yen)
• Three local airport modernization projects: loan from Japan	¥15,526 billion
• Modernization of Manas international airport in Kyrgyzstan	¥5,454 billion
European Bank for Reconstruction and Development (EBRD)	
• Transport infrastructure modernization in Turkmenistan: loan from EBRD	$50 million
• Development of Turkmenbashi, Turkmenistan: loan from EBRD	$30 million
• Rehabilitation of port of Aktau Kazakiha	$54 million
• Rehabilitation of Almaty-Karaganda-Akmola	$52 million
Asian Development Bank (ADB)	
• Rehabilitation of road from Fulshad to Aksytao within the Almaty-Akmola corridor by ADB	$50 million
• Rehabilitation of 135 km on the Bishkek-Osh road in Kyrgyzstan by ADB	$50 million
Transport Corridor-Europe-Caucasus-Asia (TRACECA) projects proposals 1998-1999	
• Road infrastructure in Central Asia	ECU[a] 250,000
• Feasibility study to identify improvement of the ports of P'ot'i and Bat'umi	ECU 15 million
• Central Asian rail development	ECU 11 million
• Transportation equipment leasing company, and regionalized facilities	ECU 800,000
• Caspian Sea traffic, and ports	
◦ New Caspian Sea shipping line(s)	ECU 200,000
◦ Rehabilitation of the ferry terminal for services to Baku	ECU 250,000
◦ Navigation channel for Turkmenbashi port	ECU 100,000

• Traffic forecasting: previous TRACECA	ECU 700,000
• Roads maintenance	
• Training centres	ECU 2 million
• Roads maintenance planning	ECU 500,000
• Ports managements support and training	ECU 1 million
• Chardzev bridge	ECU 500,000
• Feasibility study of links between TRACECA and China	ECU 600,000
• Intergovernmental joint commission for implementation of a multilateral agreement	ECU 11 million
• International road transport transit facilitation	
• Operator training and international road transport transit facilitation	ECU 25 million
• Supply of computer equipment for SAFETIR (Safe TIR Convention) operation	ECU 500,000
• Investment in Aktau port	ECU 2 million
• Intermodal/terminal equipment	ECU 25 million
• International Federation of Freight Forwarders Associations (FIATA) freight forwarders training centres	ECU 2 million
• Rail tank wagon cleaning boilers, Baku	ECU 5 million
UNDP projects	
• Central Asian External and Transit Transport Initiative: rebuilding the silk road	$450,000
• Silk Road Area Development Programme (SRADP)	$300,000

[a] European currency units.

A. Measures designed to overcome physical infrastructure bottlenecks

34. With the main transit transport routes for Central Asia virtually in place, the second phase of development has focused on rehabilitation, maintenance and upgrading. With regard to railway infrastructure, priority attention is being directed to improvement of bogey change stations, upgrading and reconstruction of tracks and bridges, and electrification.

35. Road maintenance and rehabilitation to prevent accelerated deterioration of the road condition are being given greater priority over construction of new roads. The fact that poor road conditions have led to a chain of negative effects, in terms of accelerated wear and tear of vehicles, frequent breakdown of motor vehicles resulting in late deliveries and increased transport costs, deserves urgent attention. Several projects are under way to rehabilitate the highway between the main cities of Central Asia (see box 2). Major undertakings include the Almaty-Karaganda-Astana-Borovoye project which is expected to be completed by the year 2000.

B. Measures designed to overcome non-physical barriers

36. The negative impact of physical constraints on rail, road and inland water transport has been compounded by non-physical barriers. It is increasingly being recognized that the greatest returns in terms of increased efficiency and lowered costs of transport in Central

Asia are likely to come about from determined efforts to improve the operational, institutional and regulatory environment of transit operations.

1. Measures designed to improve transport operations

(a) Railway transport operations

37. Railways in Central Asia are going through a difficult period of adjustment. Not only are they in the midst of a process of consolidation following the break-up of the former central Soviet railway system but they have also to compete with established foreign international road carriers.

38. Railway operations in Central Asia have received support from the Council on Railway Transport of CIS and the Organization for Cooperation between Railways (OSZhD). The Council coordinates railway services within the CIS area and between CIS and third countries. OSZhD supervises the application of the Agreement on International Rail Transport of Goods (SMGS) which facilitates the harmonization of tariffs and documentation. Recently, the Islamic Republic of Iran agreed to join OSZhD.

39. Although the Council and OSZhD have made commendable efforts to facilitate inter-railway cooperation, railways operations have continued to suffer from many problems, notably falling freight volumes and revenues, difficulties related to late return of wagons back to home lines, and settlement of balances which have now to be paid in hard currency.

40. The future of railways lies in close cooperation and improvement of the quality of services. In order for railways to compete with road transport, existing inter-railway agreements will need to be strengthened to enable them to offer seamless services across national borders. In this context, railway administrations, among other things, should consider offering multimodal transport services. As the role of the private sector in trade transactions increases, railways in Central Asia will be expected to be more sensitive to customer needs and requirements including prompt settlement of claims and payment of fair compensation in cases of loss, damage or delay of goods in transit.

(b) Road transport operations

41. The road transport industry in Central Asia, like its railways competitor, is also in the process of adjustment. Privatization of State-owned road transport corporations and programmes, introduced in some countries to turn some of these corporations into providers of international road services, is incomplete. Meanwhile, international road transport services are dominated by foreign carriers. In reaction to this, some countries have imposed restrictions on carriage of strategic cargoes, such as cotton, by foreign carriers, thereby making it difficult for them to obtain return loads; but Central Asian road carriers venturing abroad fail in their turn, for lack of international agency networks, to obtain return loads. The result is empty vehicles travelling in both directions, and this adds to transport costs.

42. There is a case to be made for allowing foreign carriers to pick strategic cargoes, inasmuch as this would lower outward freight charges. However, it is fair to expect that, in return, measures would be taken to support local transport firms. One way to do this would be through establishing joint ventures with foreign firms, thereby improving the performance of local firms by making available to them capital and management skills. It is increasingly recognized that a fair and stable regulatory environment would stimulate the development of smooth, economic and efficient transit transport services in Central Asia.

2. Legal and administrative measures designed to facilitate transit transport

43. Several international conventions provide a valuable basis for tackling various problems related to transit traffic operations. The Central Asian countries have acceded to some of these international legal instruments and continue to examine the possibility of acceding to many more. The Central Asian countries have also signed regional and bilateral agreements designed to harmonize their transport legislation and procedures.

44. However, given the multiplicity and complexity of transit issues, a fair and stable regulatory environment would require much greater efforts to harmonize and simplify the broad range of institutional, procedural, documentary and regulatory factors of vital importance to the actual movements of goods. This calls for accession by countries to a wide range of international conventions and the conclusion of regional and bilateral agreements.

45. At present, many difficulties stand in the way of transit transport operations in Central Asia. Lack of a common regulatory framework with harmonized transport laws and regulations in the subregion forces transporters to adjust to different laws and regulations in each country of transit, thereby creating many difficulties and resulting in fines and delays.

46. Slow border procedures, with up to four days of waiting in each direction, are not uncommon. One problem is that insofar as internal CIS border facilities were not designed for current levels of traffic, separate lanes do not exist to direct different streams of traffic for processing; as a result, even empty vehicles take the same amount of time to pass the borders (see paper on non-physical barriers to transport development (document TRANS/SC.1/1998/8-TRANS/WP.30/1998/10) presented by Antony Bailey, International Road Federation (IRF) member, to the IRF Road Conference held in Ashgabat, Turkmenistan, in April 1998).

47. Customs procedures are cumbersome. Transporters are normally required to present complete sets of documentation in two languages at each border crossing. This is often accompanied by the breaking of seals and customs escort across the territory of each country of transit. Transit charges, especially for foreign transporters, are high and charges can change abruptly without warning. To add to these difficulties, European insurance companies normally refused to insure goods bound for Central Asia because the countries therein have not acceded to relevant international conventions, such as the Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956.[a]

48. Transit transport cannot occur efficiently without establishing a predictable and conducive legal environment. The experience of countries that have taken joint measures to harmonize their transport policies, and to adopt common technical standards and legal instruments, has shown a significant overall reduction in transport costs. The Central Asian countries have welcomed recent initiatives designed to align their transit trade laws and procedures with international principles and norms. Initiatives by UNDP/UNCTAD, the Transport Corridor-Europe-Caucasus-Asia (TRACECA) and the Economic Cooperation Organization (ECO) propose to establish a regulatory framework designed to underpin transit transport operation in Central Asia. The common features of these initiatives are outlined in box 3 below.

Box 3. Some possible elements of a transit transport framework agreement between Central Asian countries and their transit transport neighbours

A transit transport framework agreement might include (a) provisions for freedom of transit, including non-discrimination against goods of any origin or destination, avoidance of unnecessary delays and exemption from any charges other than those required to meet the administrative costs of transit; (b) designation of transit transport corridors, including rail, road and inland waterways, also including provision of adequate frontier facilities and services (terminals, border-crossing points, gauge interchange stations, ferry link ports and navigational aids) and further including measures to expedite clearance of traffic, ensure the safety of traffic in transit, permit transport companies to establish offices in transit countries and obtain multiple visa entry; (c) maritime ports and facilities to be provided for the use of transit traffic; (d) general conditions for road transport, including the use of appropriate traffic regulations, freedom to select the best means of transport, requirements for approval of any carriage of internal traffic as long as necessary, provisions regarding road transport permits, technical requirements for vehicles, provision of fuel and lubricants, mutual recognition of driving permits and certificates of roadworthiness, motor vehicle third-party insurance provisions, and requirement of the equal treatment of national and transit companies regarding charges and financial obligations; (e) general conditions for rail transport, including designated interchange stations at borders and arrangements for technical inspections; (f) general conditions for inland water transport including navigation aids, maximum loads, ship papers, vessel registration and certificates of seaworthiness; (g) contract of carriage of goods in transit, including consignment notes, passenger tickets, luggage registration, liability for loss or damage to luggage, compensation for loss of goods, combined responsibility of carriers, and compensation for injury or death; (h) customs control, including minimizing controls, joint inspections, and establishment of a customs transit system; (i) documentation and procedures, including limit on number of documents and alignment and harmonization with international standards; (j) miscellaneous provisions, including a "Transit transport coordination council" with decision authority over disputes and authority to propose amendments to the agreement, and arrangements for the arbitration of disputes.

3. Institutional support arrangements and human resources development

49. Institutional support arrangements and human resource development are critical in improving the efficiency of transit transport. Effective regional transit cooperation often requires new attitudes and structures. Managing change demands proper organization and sustained commitment to carrying out agreed reforms and commitments. Full-scale effort to reform regulatory, procedural and managerial systems at a regional or subregional level requires effective institutional support arrangements and trained manpower at both the government and private sector levels.

(a) Role of Governments

50. Even as many Governments retreat from commercial transport operations, they still retain the critical role of financing physical transport infrastructure, and maintaining and managing such infrastructure, as well as formulating and enforcing transport regulations. The management and control of transit traffic, constituting a cross-sectoral issue, cut across the responsibilities of various government departments. The police are involved in enforcing traffic regulations for all vehicles, including foreign vehicles in transit. Goods and means of transport cross national territories under customs control. Construction and maintenance of physical infrastructure and transit facilities fall under the responsibility of one or more ministries. Visa formalities may be carried out by yet another ministry and the ministry of foreign affairs also has a role to play.

51. Although there is greater awareness that regular and structured inter-ministerial consultations are needed to enhance the ability of Governments to formulate sound transit transport policies, in practice the ministries responsible for transport do not always undertake adequate consultations before taking major decisions that impinge on transit transport. It should be underlined that regular and structured inter-ministerial consultations will enhance Governments' ability to implement their transit transport policies and commitments.

(b) Role of the private sector

52. The changing structure of transport and trade in Central Asia has increased the role of the private sector. As provider or user of transport services, the private sector has first-hand knowledge of the bottlenecks and obstacles encountered in day-to-day operations and, as such, is usually best suited to proposing viable and practical solutions. The private sector has a major stake in seeing to it that transit transport facilitation succeeds because the sector is a direct beneficiary of the measures designed to harmonize inter-State regulations and simplify administrative and customs procedures. The participation of the private sector in policy formulation will not only facilitate the adoption of suitable measures but will also secure the sector's cooperation in implementing new measures adopted in intergovernmental decisions.

(c) Role of human resources development

53. Solutions to many of the transit transport problems require improvements in knowledge and skills of those involved in policy-making and those involved at the operational level. There is therefore an obvious need to involve human resource development activities in any transit transport facilitation programme. The need is greater in the economies in transition because changes being proposed are not always well understood by people who have been used to a different economic system.

54. Governments will become more responsive to the problems of transit transport, and will be more likely to establish and implement appropriate regulations, if they are provided with data and information that clearly demonstrate the nature of the problems involved and the benefits of implementing appropriate regulations. This type of information would be disseminated through documentation, formal seminars and other suitable educational channels.

55. At the managerial and operational levels, actual implementation of trade and transport facilitation measures would require training, especially since many of the measures require the application of new and constantly changing technologies. This applies particularly to the areas of customs, clearing and forwarding, banking and insurance, and cargo information systems. Given the linkages between these functions at the operational level, a sound training

programme would need to ensure that there is coordination among different sectors regarding the content of training. The United Nations, in particular UNDP/UNCTAD, ECE and ESCAP, is playing, and will continue to play, an important role in technical assistance delivery to Central Asia.

Notes

[a] United Nations, *Treaty Series*, vol. 399, No. 5742.